EFFECT OF FINANCIAL MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF INSURANCE COMPANIES IN NEPAL

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfilment of the requirements for the Master's Degree

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Certification of Authorship

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**Effect of Financial Management Practices on Financial Performance of insurance companies in Nepal**". The work of this dissertation has not been submitted previously for the purpose of conferral of any degree nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of this dissertation.

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Report of Research Committee

Ms. Puja Karki has defended dissertation entitled "**Effect of Financial Management Practices on Financial Performance of insurance companies in Nepal**." successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Keshar Singh Khati and submit the report for evaluation and viva voce examination.

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Approval Sheet

We have examined the dissertation entitled "**Effect of Financial Management Practices on Financial Performance of insurance companies in Nepal**" presented by Ms. Puja Karki for the degree of Master of Business Studies (MBS). We hereby certify that the report is acceptable for the award of degree.

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Abbreviations

ALM	:	Asset and Liability Management
CBT	:	Capital Budgeting Techniques
CG	:	Corporate Governance
CMP	:	Claims Management Policies
CPV	:	Cost Profit Volume
CSD	:	Capital Structure Decisions
EPS	:	Earning Per Share
FP	:	Financial Performance
IRR	:	Internal Rate of Return
MPT	:	Modern Portfolio Theory
NPV	:	Net Present Value
NSE	:	Nairobi Stock Exchange
POT	:	Pecking Order Theory
ROA	:	Return on Assets
ROE	:	Return on Equity
SME	:	Small and Medium Enterprise
TDTA	:	Total Debt Total Asset
WCM	:	Working Capital Management

Abstract

This research investigates the impact of tactics to managing finance on the Nepalese insurance companies' financial outcomes. Specifically, it examines five most important financial practices: working capital management, capital budgeting techniques, capital structure decisions, claims management policies, and corporate governance. The research was conducted using a causal-comparative design wherein information was obtained from a standardized Likert scale questionnaire completed by 363 senior and middle-level managers of 14 life insurance companies executing in Nepal. Quantitative data analysis techniques applied in the study included descriptive, correlation, and regression analysis using SPSS to evaluate associations among financial management and performance of firm.

The findings indicate that claims management policy, corporate governance, and working capital management significantly and positively influence financial performance in the sense that successful control of liquidity, to put greater focus on internal controls, governance, and cash flow management than depending solely on investment strategy or funding structures. The research also acknowledges several limitations, such as its cross-sectional nature, its reliance on secondary data, and considering only internal financial drivers without seriously taking into account external drivers.

This research offers some fresh insights on Nepalese insurance industry financial practices and highlights actionable guidance for managers, decision-makers, and future analysts looking to improve financial results through management intervention.

Keywords: *Financial Performance, Working Capital Management, Capital Budgeting, Corporate Governance, Insurance Companies, Nepal, Claims Management, Capital Structure.*

CHAPTER I
INTRODUCTION

1.1. Background of the Study

The purpose of this study is to examines how financial management practices impact financial performance of insurance companies in Nepal. In recent times, financial industry in Nepal has grown steadily, and insurance companies have become more active in contributing to the country's economic stability. As financial markets grow tougher organization need to adopt sound financial management practices to sustain themselves and achieve lasting success. Insurance providers play a key role in the financial industry by shielding individuals and business from unexpected dangers, which helps maintain the nation's economic stability and financing security. It encompasses practices such as budgeting, financial analysis, financing decisions, working capital management, investment decisions and capital structure. These activities are important for utilizing an organization financial assets efficiently and making decisions that strengthen financial health and boosts their earning (Brigham and Ehrhardd,2016). For insurance companies, managing liquidity, making smart use of premiums, investment gains and maintaining adequate solvency margins are vital for short term survival and long term performance (Khan and Jain, 2018).

The success of a business is greatly influenced by the quality of its financial management. When the economy is unstable and financial oversight is weak, companies are likely to face major challenges. (Lakew & Rao, 2014). In the last twenty years, more and more insurance companies have gone bankrupt, and this trend seems to be driven by a range of clearly identifiable factors contributing to their downfall. The sustained success and durability of an insurance company over time depend fundamentally on how well it manages its financial resources. Typically, these activities involve planning budgets, forecasting financial outcomes, overseeing the structure of capital, making choices about investments, managing potential risks, and handling the company's working capital.

Insurance firms worldwide prioritize risk management by devising plans that address particular dangers and occasionally include safeguards for uncommon or unexpected

threats. While performing essential tasks such as setting policy price, assessing risks, handling claims, and supervising reinsurance, insurance companies navigate a variety of interconnected challenges. Without proper management, these risks could jeopardize the institution's sustainability. Nowadays, instead of ensuring each risk separately, companies are moving towards comprehensive financial management approaches that incorporate risk management ideas. Managing risk through insurance seeks to lessen the costs involved in facing specific risks while offering dependable protection against possible financial setbacks (Arif & Showket, 2015).

Chung and Chuang (2010) emphasized that financial management is built upon five key functions: managing resources and obligations, assessing financial outcomes, strategizing for long-term investments, utilizing accounting tools efficiently, and designing the financial framework of the organization. Essential financial practices such as cost-volume-profit analysis, ratio monitoring, and budget control play a crucial role in helping companies meet their financial goals by providing insights into profit levels, financial stability, and expense management for informed decision-making. The core of financial management lies in overseeing everyday cash flow, carefully assessing and choosing long-term investments, managing internal accounting practices, interpreting financial information, crafting strategic financial policies, and maintain detailed and accurate records of all financial dealings. As noted by Munyao (2010), capital budgeting plays a vital role in analyzing the potential benefits of investing in long-term resources such as manufacturing units, research activities, stocks, and industrial tools. Capital budgeting involves a mix of basic tools like capital return and payback duration, along with more refined techniques that factor in the time value of money-such as internal rate of return, profitability index, net present value, and adjusted payback time. Carefully evaluating and selecting investment opportunities through capital budgeting is vital to a business sustained success and profitability. Brigham and Ehrhardt (2016) emphasize the vital role of capital budgeting decisions in ensuring a firm's financial health, highlighting them as key decisions for owners and managers. Proper management and efficient utilization of these assets are also vital. Utilizing advanced techniques like Net Present Value (NPV)and Internal Rate of Return (IRR)is crucial for increasing a business profitability.

The Nepal insurance authority, which was known as the insurance board, regulates the

insurance industry in Nepal. In recent years, the insurance industry has experienced major regulatory and structural changes to enhance risk oversight, regulation, and transparency. Although reforms have been made, several insurance companies in Nepal continue to experience difficulties with ineffective financial management, insufficient systems to oversee financial performance and poor investment choices (Nepal Insurance Authorities, 2023). Such ongoing difficulties cast doubt on quality of financial management practices and its real effects on company outcomes. The insurance sector in Nepal, which includes both life and non-life companies, has been seen growing in recent years. As per 2024 data from the Insurance Board of Nepal (Beema samiti), over 40 licensed insurance companies were officially registered. However, many insurance companies continue to face persistent challenges like low capital reserves, weak risk assessment strategies, and inefficient claims handling (Shrestha,2023). These issues often arise from weak financial management systems. The economic environment in Nepal encounters both prospects and hurdles for the insurance sector. Technological progress and supportive government policies have improved access to insurance services (Nepal Rastra Bank, 2023). Despite this progress, the insurance sector still grapples with problems like insufficient awareness, unstable politics, and limited reach within the market (Poudel & Gautam, 2022). To thrive in this demanding environment, insurers need to adopt sound financial management practices to ensure their fiscal integrity and stability.

Across various global sectors, the relationship between financial management strategies and organizational performance has been thoroughly investigated. Research confirms that institutions with well-structured financial planning, strict budgetary oversight, and strategic investment approaches usually show superior financial performance, including higher profitability and enhance shareholder value (Pandey, 2015; Gitman et al, 2020). Nonetheless, such academic inquiry remains limited in Nepal, especially in the insurance domain, where studies predominantly emphasize operational effectiveness, regulatory frameworks, and market expansion, with less focus on internal financial governance and its impact on business outcomes.

This research sets out to understand the extent to which financial management methods shape the financial success if insurance providers in Nepal. The outcome of this study is likely to contribute to the steady development of Nepal’s insurance sector, while also

serving as a useful resource for academic exploration and the design of practical policy solutions.

1.2. Problem Statement

In Nepal, insurance sector faces significant challenges that have raised concerns about its financial performance and overall stability (Shrestha & Manandhar,2021). Despite being a crucial pillar of the economy, indicators such as equity turnover, premium income, and profitability have shown signs of decline, echoing trends observed in other developing countries (Ahmed, Ahmed & Usman, 2011). Previous research efforts in Nepal have primarily focused on broader financial management concepts or isolated variables without delving toward the collective how the application of financial management procedures influence financial performance of insurance companies (Khanal, 2018).As a consequence, there is still a noticeable gap in understanding how important financial choices-like handling cash flow, implementing good governance, and evaluating long-term investment-affect the financial health of a company. The limited evidence- based research during this area fails to provide a refined comprehension of the barriers and unique chances to the Nepalese insurance industry. While insights from studies in developed and emerging economies are valuable, they do not account for the distinctive economic and regulatory landscape of Nepal.

By analyzing how diverse methods of financial management influence the financial stability and daily functioning of insurance companies in Nepal, this study aims to close the existing knowledge gap. The concept aims to explore the current financial results status of insurance firms, analyze the key financial management practices they employ, and investigate the manner in which these practices collectively impact their financial performance. By focusing on crucial financial management aspects such as working capital management, capital budgeting techniques, capital structure decisions, claims management policies, and corporate governance, this research aims to offer a broad-based analysis that captures the complexities of financial management in the Nepalese insurance context. Understanding the regulating role of business attributes traits in relation to financial management practices and financial performance is another key objective of this study. By elucidating these dynamics, the study intends to offer implementable recommendations for policymakers, regulators, industry stakeholders,

and researchers. Ultimately, the insights from this study will support towards improving the financial sustainability, performance, and competitiveness of insurance companies in Nepal, thereby benefiting the broader economy as well.

Followings are some research questions based on the problem statement

i. Which financial management strategies are widely used by insurance firms operating in Nepal?
ii. To what extent do firm-specific characteristics moderate the link between various financial management strategies and financial outcome in Nepal's insurance firms?
iii. What actionable insights can be drawn to enhance the financial sustainability and competitiveness of Nepalese insurance companies?

1.3. Objectives of the Study

The objectives of this study are mention below:

i. To access the current situation of financial management practices on the financial performance of insurance companies in Nepal.
ii. To analyze relationships between independent variables (i.e. capital budgeting techniques, Working Capital Management, Capital Structure Decisions, Claims Management Policies and Corporate Governance) and Dependent Variables (i.e. financial performance) of insurance companies in Nepal.
iii. To examine the effect of independent variables (i.e. capital budgeting techniques, Working Capital Management, Capital Structure Decisions, Claims Management Policies and Corporate Governance) on Dependent Variables (i.e. financial performance) of insurance companies in Nepal.

1.4. Hypothesis

The hypothesis of the study is:

i. H1: Working capital management has significant effect on the financial performance of insurance companies in Nepal.
ii. H2: Capital budgeting techniques have significant effect on the financial performance of insurance companies in Nepal.
iii. H3: Capital Structure Decisions have significant effect on the financial performance of insurance companies in Nepal.
iv. H4: Claims Management Policies have significant effect on the financial performance of insurance companies in Nepal.
v. H5: Corporate Governance have significant effect on the financial performance of insurance companies in Nepal.

1.5. Rationale of the Study

The rational for conducting this research is to clarify the complicated relationship between financial performance and their financial management strategies of insurance companies in Nepal. Despite the pivotal importance of the insurance sector in the country's economy, there exists a notable gap in comprehensive studies specifically focused on this relationship within the Nepalese context. By delving into this area, the study seeks to fill this gap and provide a detailed, localized analysis that can offer valuable insights for stakeholders across the industry spectrum. Effective financial management is essential for insurance companies to achieve long-term progress and financial return. Through this study, we aim to elucidate how specific financial management practices impact financial performance measures including profit margins, cash flow, debt sustainability, and productivity. For insurance firms to increase their effectiveness strategies, operations, and resource allocation while optimizing sectoral growth, stability, and competitiveness, these insights are essential.

Furthermore, the study's findings hold significance beyond industry stakeholders, extending to policymakers, regulators, and investors. The empirical evidence and recommendations derived from the study can inform strategic decision-making, policy formulation, and investment decisions within the insurance sector. This has broader

implications for aligning the sector with national economic goals, fostering innovation, and ensuring regulatory effectiveness. Academically, this research gives new perspectives by utilizing actual data from Nepal insurance industry. While prior studies often draw from experiences in developed or emerging economies, there is a pressing need for localized research that considers Nepal's unique economic, regulatory, and cultural landscape. By bridging this gap, the study enriches our understanding of the relationship between financial management practices and financial performance, benefiting scholars, researchers, and practitioners in the field.

In conclusion, this study not only addresses a significant knowledge gap but also offers practical insights for management, influences policy and legal structures, and supports the ongoing development and endurance of the insurance sector in Nepal.

1.6. Limitations of the Study

The limitations of the study are:

i. The study results could be affected by its use of secondary data sources from reports and financial records, which may suffer from inaccuracies or incompleteness, affecting the validity of the conclusions.
ii. Even though the study encompasses key method used in managing finance, it does not explore every aspect of financial management in detail, such as risk management or other operational practices.
iii. The sample may not represent the entire insurance industry in Nepal, as smaller or less-established firms may be excluded, leading to potential bias in the results
iv. The report emphasizes on internal financial management procedures but does not extensively consider external factors like economic conditions, government policies, or industry regulations, which could also influence financial performance.
v. The interpretation of financial ratios and performance metrics involves subjectivity, which could lead to varying conclusions depending on the perspective taken.
vi. The study primarily relies on quantitative data (financial ratios and metrics), potentially overlooking qualitative factors such as management quality,

organizational culture, and leadership.

CHAPTER II
LITERATURE REVIEW

This chapter builds a strong academic base for the topic and offers a detailed review of selected theoretical and empirical studies related to the main variables. The primary objective is to highlight the existing research void and establish a solid basis for the investigation. This study looks at a variety of financial management theories and concepts to comprehend how working capital control, capital budgeting tactics, capital structure decisions, corporate governance, and claims handling procedures impact financial results. Furthermore, the chapter presents a detailed empirical review of studies that are most relevant to the research purpose, especially in the context of insurance companies in Nepal. The observational review not only supports the development of the research hypotheses but also underscores the need of the present research in addressing the identified gaps. Additionally, this chapter introduces the study's conceptual framework, which outlines the hypothesized relationships through the key variables under review. This framework acts the role of a guide for the research design and analysis. Each variable is clearly defined and contextualized within the scope of the study to ensure clarity and coherence.

2.1. Theoretical Review

2.1.1 Modern Portfolio Theory (MPT)

Modern Portfolio Theory (MPT) first presented by Markowitz in 1952, which explains how investors who prefer to avoid risk can construct ideal portfolios by weighing anticipated returns against market risks. The theory describes the efficient frontier as the spectrum of optimal portfolios that can be created from a mix of risky assets, underscoring the value of diversification. Among portfolios with the same level of risk, those located on the frontier deliver the highest possible returns. Investors can decrease their total risk by including risk-free assets such as governments bonds before selecting a portfolio that aligns with their individual risk tolerance.

Elton et al. (2009) summaries the key assumptions of Modern Portfolio Theory. Investor's assess investment opportunities by examining the range of expected returns and the probabilities of those returns occurring a certain timeframe. This helps them gauge the potential risks and benefits of various assets. Market fluctuations is assessed based on the variability of expected returns, and investment decisions are made entirely on estimated return and risk preferences. MPT offers a comprehensive framework for agreeing the relationship between structured risk and compensation, influencing regulatory investment portfolio oversight strategies and the rise of inactive financial commitment. Markowitz's model operates on a single-period basis, assuming investors have a predetermined initial endowment for investment held over a specific holding period. The model underscores the importance of strategic diversification, which is crucial in managing different strategic units or portfolios within organizations, as observed in the insurance sector with separate segments like general, life, specialist, and composite insurance. Prudent financial management practices are essential for insurance companies to effectively control and maximize returns within these diverse portfolios. Diversification, a fundamental concept in MPT, becomes a significant aspect of financial management practices, particularly in navigating varied securities and investment opportunities.

2.1.2. The Pecking Order Theory

The Pecking Order Theory, groundbreaking by Myers (1984), offers a structure for cooperating how business prioritize financing decisions based on their preference for internal funding over external sources. According to this theory, firms opt for internal financing first, utilizing retained earnings and depreciation effects, before turning to external funding options. Debt is preferred over equity, which is seen as a last resort due to information asymmetry issues. This conservative approach to financing aims to maintain firm value while minimizing agency costs associated with equity issuance and negative market reactions to new equity offerings.

The theory outlines a hierarchical preference for financing sources, with internal funds being the top choice due to their lack of flotation costs and the absence of disclosure requirements that external funds entail. If external funding becomes necessary, the pecking order prioritizes debt, followed by hybrid debentures, preferred equity,

common shares, as outlined by Myers (1984). This part of the sequence aligns with investment managers' goals of retaining control, reducing equity agency costs, and avoiding adverse market responses to equity issuances. Pecking Order Theory is grounded in two key assumptions about financial managers: asymmetric information and their commitment to shareholder interests. Managers are presumed to possess superior information about the firm's earnings and growth prospects, leading to a desire to keep such information private. Internal funds circumvent the need for public disclosures about investment opportunities, aligning with managers acting in shareholders' best interests by avoiding dilution of existing ownership through new equity issuances.

While Pecking Order Theory sheds light on firms' financing preferences and capital structure decisions. It also overlooks potential issues arising from excessive financial slack that may weaken market discipline and impede responsiveness to market signals. This framework is particularly applicable to this research as it underpins the concept of debt-equity composition, which is an independent variable under examination. Financing decisions impact financial management practices, capital market dynamics, regulatory considerations, and corporate governance, as highlighted by Green, Murinde, and Suppakitjarak (2002). By understanding the rationale behind firms' financing choices, such as the mix between equity and debt, this theory aids in comprehending the financial management strategies adopted by companies to optimize their capital structure and overall performance.

2.1.3. Real Options Theory

Proposed by Myers (1984), Real Options Theory emphasizes managerial flexibility in capital budgeting decisions, allowing managers to allocate capital efficiently, manage uncertainty, and limit downside risk. It highlights those investments with real options can exceed the value calculated through conventional discounted cash flow methods. The classic approach relies on financial option pricing models, such as Black-Scholes, assuming replicable returns and standard asset price behaviors. Industries with large capital expenditure and unpredictable, such as mineral recovery, aerospace, biotechnology, increasingly adopt real options to benefit from uncertainty and strategic flexibility. This theory is connected to the study by informing investment appraisal

decisions, emphasizing approaches like discounted cash flow analysis and rate of return metrics, which are designed to enhance a firm's profitability.

2.1.4. Stewardship Theory

Stewardship Theory suggests that managers, by nature, act in the interest of a business owners. Influenced by social and behavioral science, it views managers as responsible individuals who prioritize the long-term well-being of the organization over personal benefits. The theory contrasts with Agency Theory, which emphasizes a more transactional relationship between principals (shareholders) and agents (managers), this view holds that managers may prioritize their own benefits, potentially ignoring or conflicting with the responsibilities they owe to the company's shareholders. Stewardship Theory, however, asserts that managers are inherently trustworthy and motivated by a sense of responsibility, autonomy, and a shared vision for organizational success.

According to this theory, when managers are empowered and given the necessary autonomy, they will align their personal goals with the broader objectives of the firm. They are driven by motivations such as career reputation, personal fulfillment, and the desire for organizational success, thereby causing to increased corporate efficiency outcomes. Managers who concentrate on the company's future stability instead of quick financial gains typically make decisions that protect shareholder's benefits and help secure the organizational longevity. Stewardship Theory also supports the unification of the Chief Executive and Head of the Board roles, as it reduces monitoring outlay and enhances decision-making by consolidating power and responsibility. Empirical research indicates that firms guided by stewardship principles tend to achieve better financial performance, as it reduces the need for extensive monitoring and aligns the priorities of directors and investors. Grasping the link between corporate governance and financial results is vital, which is why this hypothesis plays an important role in exploring how governance framework affect business success.

2.1.5. Contingency Theory

Contingency Theory asserts there is an absence of universally superior approach to

managing, organizing, or making decisions within an organization. Rather, it emphasizes that the effectiveness of management practices depends on how well these practices align with a range of internal and external factors. The core idea is to ensure a "goodness of fit," meaning that the organization's structure, culture, and processes must be adapted to the specific conditions and contingencies it faces in both its internal and external environments. This approach challenges the assumption that a blanket solution is applicable universally to all organizations, acknowledging the complexity and variability of organizational settings.

The theory rests on two central assumptions: (1) there is no universal approach of organizing or overseeing that works best in all situations, and (2) that not all methods of organizing are equally effective under different circumstances. These assumptions suggest that organizations must assess and respond to their unique conditions rather than adhering to rigid, predefined management models. The essence of contingency theory lies in recognizing that optimal organizational decisions are contingent on specific situational factors such as the external environment, organizational culture, the size of the firm, technology, leadership style, and the nature of the tasks being performed.

For an organization to be effective, it must ensure that its internal structure, culture, and processes are well-aligned with the external conditions and internal circumstances it faces. Organizational effectiveness is not a fixed state but a dynamic process that requires continuous adaptation. This alignment helps the organization adjust to external environmental conditions such as market changes, competitive forces, economic shifts, or regulatory adjustments. Similarly, factors within like firm's culture, values, and decision-making processes play a critical role in determining how effectively it can respond to external demands. When organizations tailor their strategies and structures to these contingencies, they are better equipped to address challenges, seize opportunities, and improve overall performance. For instance, an organization operating in a fast-changing, highly competitive market might adopt a more flexible, decentralized structure that promotes quick decision-making and responsiveness. On the other hand, an organization operating in a stable, well-regulated industry may benefit from a more hierarchical and controlled approach to management. By ensuring that their strategies are context-sensitive, organizations are able to optimize resources, reduce

inefficiencies, and enhance performance over short-range and long-range.

Contingency Theory importance to financial management is particularly pronounced. Financial management practices must be customized to align with the specific challenges and opportunities that an organization faces. This alignment ensures that financial strategies, such as capital budgeting, investment decisions, cash flow management, and financing choices, are appropriate to the unique context of the organization. For example, a start-up company operating in a high-risk, high-growth industry may need to focus on aggressive expansion strategies and venture capital financing, whereas a mature, stable firm may prioritize risk-averse strategies such as cost reduction and steady profit generation.

Moreover, the flexibility afforded by contingency theory allows organizations to continually reassess and refine their financial strategies in response to evolving conditions. Outside forces, like changes in rate of interest, market conditions, or the regulatory landscape, may necessitate adjustments to an organization's financial strategies. Internally, shifts in corporate culture or leadership may prompt a reevaluation of how resources are allocated and how financial performance is measured. A static, a catch-all method to handling financial would fail to accommodate these shifts, potentially leading to missed opportunities or increased risks.

Contingency Theory also stresses the importance of understanding the internal setup and the way it influences decision-making and resource allocation. For instance, decentralized organizations with a more flexible structure may encourage a greater degree of autonomy among managers, enabling them to make decisions that are more responsive to immediate financial needs. On the other hand, a more centralized organization may have financial decision-making concentrated at the top levels, potentially leading to more uniform, long-term strategies but at the risk of slower reactions to changes in the financial landscape.

Contingency Theory emphasizes that to maximize organizational performance, companies must be able to adapt not just their management practices but also their strategic direction to the contingencies they face. This means that organizations should not simply impose external best practices or adopt strategies that worked for other firms

without considering their specific context. For instance, a high-tech company may place a strong emphasis on innovation, R&D, and flexibility, aligning its financial management practices to support rapid product development and scaling. In contrast, a manufacturing company may focus on operational efficiency and cost management, with a more conservative approach to financial risk.

Financial management practices that are adaptable and contingent on the circumstances of the organization contribute to better financial outcomes by ensuring that financial strategies are not just reactive but strategically proactive. For example, during periods of economic uncertainty, financial managers might need to implement more conservative financing strategies and optimize working capital management to ensure liquidity. On the other hand, during periods of economic boom or growth, organizations may pursue more aggressive expansion and investment strategies to capitalize on favorable market conditions. Contingency Theory underscores the importance of contextualizing financial decision-making. Financial strategies are not only influenced by broad financial principles but also by the specific characteristics of the organization, its environment, and its goals. Thus, financial policy planners need to possess a deep realization of both internal and external factors and be agile enough to adjust strategies as circumstances change.

2.1.6. Walker's Three Propositions

Walker (1964), put forward a new theory by testing three different hypotheses related to how the balance between risk and return drives decisions in managing working capital. He investigated how changes in the amount of working capital influenced a company's profitability across nine industries in 1961. His findings revealed a negative relationship, implying that as working capital increased, the return rate decreased. This observation laid the foundation for Walker's three key propositions:

Proposition I – Walker suggested that the connection between operating funds and fixed capital is inherently linked to the level of risk a firm assumes. If a company allocates more working capital relative to its fixed capital, it increases both its opportunities for profit and the risks it takes on. To achieve the lowest possible risk, Walker proposed that firms should finance their working capital entirely with equity capital. However,

this decision to avoid debt reduces the firm's leverage and, consequently, its ability to generate higher returns on equity. This tradeoff between risk and return remains central to working capital management, where companies must balance their desire to minimize risk with their need for greater profitability.

Proposition II –The kind of funding utilized to support working capital—whether debt or equity—influences the firm's short-term financial risk and its likelihood of incurring gains or losses. According to Walker, the balance between debt and equity, along with how long the debt lasts, significantly affects a company's overall risk and earnings. Short-term debt, for instance, may expose the firm to higher risks due to the pressure of meeting debt obligations in the short run, whereas long-term debt offers a longer period to meet obligations, reducing the immediate financial pressure. However, long-term debt comes at a higher cost, which may outweigh the benefits of lower short-term risk. Hence, firms face a strategic decision about whether to choose cheaper, long-term debt with its associated risks or costlier short-term debt that offers more flexibility.

Proposition III – Walker's third proposition asserts that the risk faced by a firm increase as the difference between the company's income from its home market and the timing of its loan repayment is becoming larger. In other words, if a company's debt has long maturities but its internally generated funds (such as profits or cash flows) are short-term, the firm is exposed to higher risk. On the other hand, if the firm can align the maturities of its debt and the timing of its internal cash flows, it can reduce its overall financial risk. This highlights the vital importance of managing liquidity and the ability of firms to time their financial obligations with the in-house capital accessibility. The better the alignment, the lower the risk, as the firm can meet its obligations without resorting to external financing or taking on excessive debt.

While Walker's theory laid the groundwork by grasping the factors influencing working capital management, he only empirically tested Proposition I. This limited empirical testing has led other scholars to extend and refine his propositions in subsequent studies. Weston and Brigham (1972) extended Walker's second proposition by providing further clarity on the use of debt, especially differentiating between short-term and long-term debt. They recommend that for effective cash management, companies should prefer current financial obligations whenever it results in a reduction in the firm's mean

capital cost. By using short-term debt, firms can benefit from the lower interest rates associated with these instruments. However, this short-term borrowing should only occur when a firm has excess funds after covering its immediate financial obligations. Weston and Brigham also posited that a business should only expand its current assets when the additional returns generated by these assets equivalent as the cost of capital used to finance them. This concept is critical in figuring out the optimal phase of working capital and ensuring that companies do not overextend themselves by accumulating unnecessary assets or taking on excessive debt.

This extension by Weston and Brigham links directly to the central theme of management of current assets and liabilities in the research, emphasizing efficiency and management of financial resources. Proper management of cash flow, inventory, and short-term debt obligations ensures that firms are able to maintain liquidity while minimizing financial costs. In this context, this theory is highly pertinent to financial administration, as it emphasizes the need for businesses to balance liquidity and profitability. Walker's propositions, along with the extension offered by Weston and Brigham, are highly pertinent to industries that rely heavily on working capital, such as manufacturing and retail sectors, where operational efficiency and financial flexibility are key to maintaining competitive advantages. Furthermore, the theory holds significant implications for companies when determining their financing strategy—whether to rely on equity, which carries lower risk but offers lower returns, or to leverage debt, which increases risk but potentially offers higher returns through the use of leverage. The decision-making process, therefore, involves a careful analysis of the company's risk tolerance, economic condition, and growth objectives. The propositions also underscore the importance of cash flow management, ensuring that companies are not only financially viable over the near term plus able to meet their extended period obligations without incurring excessive costs.

In summary, Walker's theory, though limited through empirical testing, has provided a foundational architecture for understanding the dynamics of operating capital control. The extension by Weston and Brigham further enriches this framework, offering practical insights into the application of debt and equity financing and their relationship to risk and return. Both sets of propositions continue to be relevant in contemporary financial management, particularly for firms operating in industries were managing

liquidity and maintaining profitability are crucial for long-term success.

2.2. Empirical Review

Solanki (2024) identified a significant positive relationship between financial management strategies, including long-term investment planning, financial choices, and risk control and performance of companies in developing markets. The use of ANOVA confirmed that firms with effective financial strategies perform better in uncertain environments. This study examines how financial management strategies effect the performance of firms in Nepal, taking into account the country's unique economic condition and regulatory frame work.

Rahmah and Peter (2024) conducted a study to explore how financial management practices affect the performance of firms in Indonesia. They collected data from various companies by using mixed-method approach to analyzed how budgeting, financial monitoring, working capital management, and investment decision impact profitability, cash availability and financial stability. The research found that companies with efficient financial management practices often see better profitability, maintain smoother cash flow, and have stronger financial stability. In Nepal, business understand the value of good financial management, but they often face problems like insufficient funds and a lack of financial skills, which can make it harder for them to achieve the same level of success as companies in Indonesia.

Bashyal and Bhandari (2023) investigated the influence of capital composition on earning of Nepalese insurance companies between 2013 and 2020.Data were analyzed from 14 companies. The results reveal that higher debt negativity affects profitability, while greater equity has a positive impact on it. The study showed that firm size and physical assets have a minimal but significant effect. The finding implies that, to enhance profitability in the insurance sector, debt should be minimized and equity should be maximized.

Kumar (2023) found that the financial performance of power sector firms largely depends on how effectively they handle their financial activities. The study highlights that using good financial habits –like planning a head, keeping budget under control,

making wise investment, strong cost management, and keeping clear record can help companies grow financially. The study emphasizes that adopting robust financial practices is crucial for sustaining effective operations and long-term stability of these organization.

Pradhan and Dahal (2021) conducted an analysis of 21 insurance companies in Nepal over five-year period, using ROA and EPS to evaluate their financial performance. The study discovered that insurance premium and firm size positively influenced ROA and EPS. The current ratio was found to reduce ROE but raise EPS, while the solvency ratio was negatively linked to ROA and positively linked to EPS. In summary, insurance premium, current ratio, and firm size were key drivers of performance.

Bhattarai (2020) explored the impact of capital structure on financial outcomes of insurance companies in Nepal. Data was taken from 14 insurance companies over a period of nine years. The research explored the influence of debt, equity, company size, and physical assets on profitability, measured by return on assets. The results showed that profitability largely depends on a well-managed mix of debt and equity, along with sufficient tangible assets. This highlights that insurance companies in Nepal should manage their capital structure wisely to improve their financial outcomes.

Gul et al. (2020) found that small and medium enterprise (SMEs) in Pakistan can improve their profit margins by keeping a close eye on bills receivables, stock and payable. Through regression analysis, the study showed that profit rises with longer payable, growth, and size, but falls with longer receivables, inventory, cash and higher debt. In context of Nepal, the fundamental concepts remain relevant nut many medium and small business faces challenges like lack of financial awareness, limited capital, and informal operations. As Nepalese SMEs adopt more formal operations, strong control over working capital management can significantly contribute their financial success.

Gilbert (2019) report explored how south African manufacturing companies adopt various capital budgeting approaches and how these influence their business outcomes. A total of 118 firms responded out of 318 firms, yielding a 37% response rate. The research examined at IRR, ARR, NPV, and payback assessing performance by ROA.

It found that most firm used traditional method rather than relying just on payback method. In Nepal, insurance companies mostly use simple method like ARR and the payback because of low financial knowledge. A small number of larger firms have begun using NPV and IRR, but there is little research on their impact.

Angima and Mwangi (2017) investigated how underwriting and handling of insurance claims management influenced the performance of general insurance firms in East Africa region. Using data from Kenya, Uganda, and Tanzania, the research conducted that effective underwriting and claims handling contributed positively to the non-financial outcomes of the firms. However, its impact on financial outcomes proved to be not statistically significant, suggesting that these practices might affect operational efficiency but may not necessarily translate into improved financial outcomes. In Nepal. Insurance sector experiences similar issues with financial stability, managing operations, claims administration, suggesting these finding may be relevant there.

Karani (2015) research examined the impact that financing decisions have on the financial health of energy and petroleum firms traded on the Nairobi Securities Exchange. The investigation utilized a descriptive survey technique, focusing on a sample of five organizations over a ten-year span from 2004-2014.The study found that the amount of debt, liquidity, and the size of a firm greatly influence its financial performance. The study revealed that the debt ratio and firm size were positively associated with financial performance, while liquidity showed a negative correlation. These findings suggest that debt and bigger firm size can enhance financial results, while excessive liquidity might hinder performance.

Klammer (2013) carried out research to explore how the use of capital budgeting methods relates to the performance of companies in the United States. The focus was on how the choices made in capital budgeting influenced overall firm performance, considering the long-term implications of investment decisions. The study achieved a total of 369 manufacturing firms, from 184 firms, representing a response rate of 48.9%. Performance was assessed using the operating rate on assets, while the capital budgeting method assessed included the payback technique and various discounted cash flow strategies

Umar et al. (2012) analyzed the link between the capital structure and firm performance, utilizing data from 100 publicly traded companies between 2006 and 2009. Their analysis identified a strong positive connection between capital structure and performance. Performance was represented by metrics including Return on Assets (ROA), Earning Per Share (EPS), and the net profit margin. The analysis of capital structure involved calculating the proportions of short-term, long-term, and total debt relatives to total assets, expressed respectively as STDTA, LTDTA, And TDTA. They employed the exponential generalized least squares approach in their analysis, which led them to conclude that their findings supported balance theory, a theory that suggests companies seek an efficient leverage mix to maximize their value.

Muritala (2012) extended this line of inquiry by examining the impact of leverage with respect to the performance of Nigerian companies. By analyzing data from 10 companies between 2006 to 2010, the study found that a higher level of liabilities relative to overall assets leads to decrease company's profitability with a decline on Return on Assets, reinforcing the idea that excessive leverage could be harmful to company's earning potential.

Mohammad et al. (2010) explored how managing working capital relates to the success of business, focusing on Malaysian publicly listed firms. They assessed both market valuation and profitability aspects in their analysis, drawing data from a pool of 172 listed companies sourced from Bloomberg's databases. The study period spanned five years (2003-2007), where they studied different parts of working capital and how these affect company performance measures like return on assets and Tobin's Q. Utilizing multiple regression and correlation analyses, they discovered an adverse association between business liquidity components and company performance.

Sayeed and Hogue (2009) studied asset and liability management (ALM) in public and private business banks functioning within Bangladesh. The study found that managing assets and debts with competition and inflation, greatly affect banks profit. They examined how effectively and efficiently claims are processed in the insurance sector. The study highlighted that handling claims promptly and effectively have a significant impact on operational processes, improving both the speed of claims handling and fraud detection. They emphasized the importance of prompt and efficient claims management

in ensuring organizational success and profitability.

Table 1

Summary of Empirical Review

Author(s) & Year	Article Name	Objective	Methodology	Findings
Solanki (2024)	Study on financial management strategies	To explore the relationship between financial management strategies and firm performance	ANOVA	Positive relationship between financial strategies and firm performance
Rahmah and Peter (2024)	Impact of financial management practices on firm performance	To examine the impact of financial management practices on performance of firms	Mixed-method approach	Positive association between financial management and performance of firms.
Bashyal and Bhandari (2023)	Effect of capital structure on financial performance of insurance companies in Nepal	To analyzed the effect of capital structure on financial performance of insurance companies in Nepal	Regression Analysis	Equity to total asset, and assets tangibility has effect the financial performance in Nepalese insurance sector.
Kumar (2023)	Financial management practices and their impact on the financial performance of power sector	To identify the effect of financial performance of power sector	Comprehensive Analysis	Financial performance in the power sector contributes positively with proper investment decisions.
Pradhan and Dahal (2021)	Financial performance of Nepalese insurance companies in Nepal	To examine the financial performance of Nepalese insurance companies	Descriptive and casual comparative design	Insurance premium has positive impact on ROA and EPS
Bhattarai (2020)	Effect of capital structure on financial	To examine the effect of capital structure on	Pooled OLS model	Equity to total asset and leverage have

	performance Insurance Companies in Nepal	financial performance of insurance companies in Nepal		significant effect on financial performance in Nepalese insurance companies
Gul et al. (2020)	Impact of Working Capital Management on SME Performance	To examine the effect of WCM on the profitability of SMEs in Pakistan	Regression Modeling	Positive association with firm growth and size, negative with certain WCM variables (e.g., AR days, CCC)
Gilbert (2019)	Capital Budgeting and firm performance: A Study of South African Manufacturing firms	To examine how capital budgeting methods impact firm performance	Survey, Regression Analysis	Firms using a combination of methods performs better those using only payback method
Angima & Mwangi (2017)	Underwriting and Claims Management Impact on Insurance Performance	To study the effect of underwriting and claims handling on insurance performance	Data analysis from Kenya, Uganda, and Tanzania	Positive impact on operational efficiency but not financial performance
Karani (2015)	Capital Structure Choices and Financial Performance	To explore how capital structure choices impact the performance of firms in the energy sector	Descriptive survey	Debt ratio and firm size positively related to performance, liquidity negatively
Umar et al. (2012)	Capital Structure and Firm Performance	To examine the relationship between capital structure and performance of firms	Generalized least squares approach	Positive relationship between capital structure and firm performance
Klammer (2013)	Capital Firm and Performance of firm in US	To investigate how capital budgeting decisions influence overall firm performance	Regression analysis	Pay back method discounted cash flow strategies impact performance

Muritala (2012)	Leverage and Firm Performance in Nigerian Companies	To explore the impact of leverage on the performance of Nigerian companies	Data analysis, regression analysis	Negative impact of debt on ROA
Mohammad et al. (2010)	Working Capital Management and Corporate Performance in Malaysia	To analyze the impact of working capital components on corporate performance	Multiple regression analysis	Negative association between WCM components and firm performance
Sayeed & Hogue (2009)	Asset and Liability Management in Bangladesh	To study how handling assets and debts affects a banks profit	Data analysis, survey	Efficient ALM improves profitability

2.3. Research Gap

While numerous global studies have explored the influence of financial management on organizational outcomes, very few have focused specially on the insurance sector within Nepal (Shrestha & Manandhar,2021). Most of the existing literature centers around banks or large-scale multinational firms, often overlooking how financial practices function in relatively smaller and more regulated industries like insurance. Moreover, even among the limited studies available, a comprehensive examination of how various financial decisions-such as budgeting, investment planning, and working capital management translate into actual performance outcomes for Nepalese insurers is lacking (Khanal,2018). This leaves a clear void in both academic understanding and practical insight. Addressing this gap, the current research provides a focused analysis within the unique regulatory and economic context of Nepal's insurance industry, aiming to fill the missing connection between financial practices and firm performance in this sector.

CHAPTER III
RESEARCH METHODOLOGY

Research Methodology is the process by which data is gathered, analyzed, and interpreted to answer specific research questions. This Section overview the techniques and methodology used to conduct the research. This chapter explains the method taken to carry out the research, providing a transparent view of how the study was conducted.

3.1. Research Design

A research design functions as the blueprint for a research study, providing structure and cohesion to its various elements. It details the methods employed to collect, analyze, and interpret information, ensuring that each phase contributes effectively to resolving the primary research questions (Orodho, 2003). This assessment employed a descriptive and causal-comparative research design. The descriptive design focuses on providing a detailed account of the current state of the variables of interest and causal-comparative method aimed to infer potential causal relationship and identify significant predictors of performance.

Together, the descriptive and causal-comparative designs provided a robust framework to achieve the research objectives, enabling the study to detail existing practices, identify relationships, and explore their implications for financial performance.

3.2. Population, Sample, Sampling Design

The term population pertains to a complete set of people, events, or objects that share a common observable characteristic, forming the primary focus of scientific investigation. The population base of the study consists of all 4003 employees working in life insurance companies of Nepal. The population includes employees with relevant roles in financial and managerial capacities, specifically senior management and middle-level managers within the employees of 14 life insurance companies in Nepal. The sample is a subgroup of the population selected for analysis to make implications about the entire group. This research includes a sample of 363 employees out of 4003 employees of life insurance company in Nepal. The sample size was determined based

on the study objectives, ensuring it is representative of the population. For this research, sample size was determined by using the Yamane, T. (1967) formula:

$$n = \frac{N}{1+(e)^2}$$

$$n = \frac{4003}{1+4003(0.05)^2}$$

$$n = 363$$

where,

n= sample size

N= population size

e= error of tolerance of 5%

The study employed a purposive sampling method, focusing on senior management and middle-level managers. This approach ensures the inclusion of individuals with significant knowledge and influence over financial and managerial practices. Purposive sampling was chosen to target individuals whose roles are closely linked to the research objectives.

3.3. Nature and Source of Data

The research employed multi-faceted approaches to gather data, aiming to thoroughly explore the research questions. Through the use of standardized questionnaire, primary data was collected to a carefully selected group of participants. These participants have included key stakeholders from various insurance companies in Nepal, such as financial managers, accountants, and other relevant personnel. The questionnaire has been meticulously designed to capture complete data on financial management practices, specifically focusing on working capital management, capital budgeting techniques, claims management policies, corporate governance and capital structure decisions as well as their perceived effect on financial performance. To facilitate the data collection process, the questionnaire has been distributed using Google Forms, allowing for efficient and wide-reaching dissemination. The digital setup has enabled respondents to answer at their own pace, potentially increasing response rates and ensuring a broader

representation of the target population. Together with primary data collection, secondary data from existing surveys, financial reports, and databases have been utilized to supplement and validate the findings. These secondary sources have included relevant financial statements, industry reports, and previous research studies that provide contextual and historical insights into the financial strategies and procedures adopted by of insurance companies operating in Nepal. Through integrating firsthand and secondhand data, the research has aimed to achieve a more robust and triangulated analysis, enhancing the stability and accuracy of the research outcomes. Using two complementary methods to gather information enriched the quality of data and enabled a deeper exploration of how financial decision-making influences the operation success of insurance providers in less developed economies.

3.4. Method of Analysis

Quantitative data gathered via surveys was evaluated through SPSS software. Initially, descriptive analysis (mean and standard deviation) was performed to sum up and present the primary aspects of the data, presenting insights into the central tendencies and distributions of the variables. Specifically, the correlation coefficient was used to assess the relationship among gender, financial interest, and personal financial knowledge.

Hierarchical multiple regression was then carried out to evaluate the research assumption and explore how different variables interacted with each other in predicting results. This technique enabled a deeper insight into how the variables are connected. To address more complex research questions, advanced statistical methods were employed. These methods helped explore how the variable are connected and revealed possible middle factors affecting the results. Overall, the analysis aimed to draw comprehensive conclusions from the data, validate the research hypotheses, and uncover significant patterns and relationships relevant to the study objectives.

Descriptive Analysis

Descriptive analysis involves summarizing and organizing the collected data to describe data, offering insights into patterns, trends, and distributions. For this study,

descriptive analysis was employed to summarize the financial practices adopted by insurance companies in Nepal and their associated performance metrics. This analysis helped identify the central tendencies and variability within the data, which is critical for setting the context for deeper inferential analysis.

Mean

The mean (also called the average) is an assess of central measures that represents the middle or typical value within a group of numbers. It gives an overall idea ofthe general magnitude of the values in a dataset. The mean is calculated by summing all the outcomes and then dividing the total number by those outcomes. The formula to calculate the mean is presented by:

$$\text{Mean}(\bar{x}) = \frac{\Sigma X}{n}$$

where:

$(\bar{X})$ represents the mean.

n is the total number of values in the dataset.

$\sum X$ represents sum of dataset.

Standard Deviation

The standard deviation is an assess of the spread or dispersion of a set of values. It tells you how much the individual values in a dataset deviate from the mean (average). When the standard deviation is low, the data points cluster tightly around the average value; high means they are spread out.

$$\text{Standard Deviation}(\sigma) = \sqrt{\frac{\Sigma(X-\bar{X})^2}{n}}$$

Where:

σ is the sample standard deviation.

n is the number of values in the sample.

X is the number of X-series. $\bar{X}$ is the mean.

Correlation Analysis

Correlative analysis investigates how two or more variables are connected by identify the strength and direction of their association. To explore how financial management techniques, including working capital oversight and capital budgeting, relate to the financial outcomes of insurance companies, this research applied correlation analysis. The correlation coefficient, ranging from -1 to +1, reflects both the strength and the connection between variables. This finding helps to understand whether better financial management approaches contribute to enhanced financial results, and this analysis also set the stage for regression analysis. The formula to calculate the correlation coefficient is given by:

$$r = \frac{\mathrm{n}\,(\Sigma \mathrm{xy}) - (\Sigma \mathrm{X})(\Sigma \mathrm{Y})}{\sqrt{[\mathrm{n}\Sigma \mathrm{x}^2 - (\Sigma \mathrm{x})^2]}\,[\mathrm{n}\Sigma \mathrm{y}2 - (\Sigma \mathrm{y})^2}$$

Where:

r is the coefficient of correlation.

$\sum XY$ is the sum of the product of each pair of scores.

n is the number of data pairs.

$\sum X$ and $\sum Y$ is the sum of X and Y scores respectively

Regression Analysis

Regression analysis helps to examine how dependent variable are influenced by one or more independent variables. This investigation applied multiple regression analysis to explore the impact that different financial management strategies have on the financial results of insurance companies. Key outputs from regression analysis, including coefficients, R-squared values, and p-values, provided detailed insights into the significance and predictive power of each variable. This helped identify the most influential practices and offered actionable insights for improving financial performance. The equation for multivariate regression is presented by:

$$Y=\beta_0+\beta_1 X_1+\beta_2 X_2+ \ldots. +\beta_k\, X_K+€$$

Where:

Y is the dependent variable (the outcome we are trying to predict)

$X_1, X_2, \ldots X_K$ are the independent variables (the predictors). β_0 is the intercept (the value of Y when all Xi's are zero)

$\beta_1, \beta_2, \ldots \beta_k$ are the regression coefficient € is the error term, representing the difference between the observed and predicted value of Y.

3.5. Research Framework and Definition of Variables

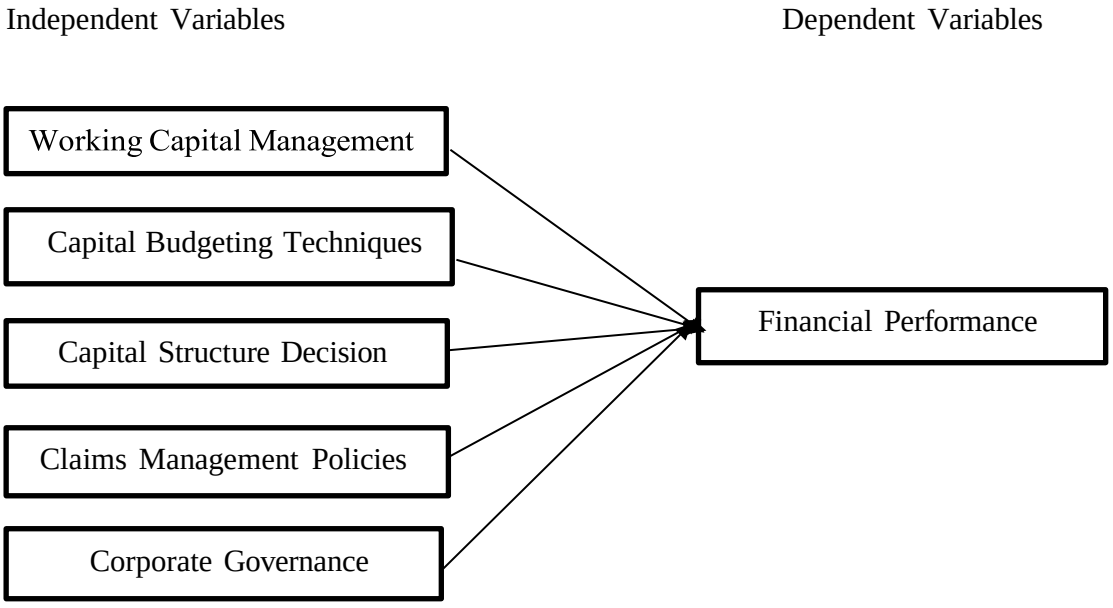

Figure 1. Research Framework
Source: Kader and Khan (2019)

A research framework has been created to illustrate the hypothesized relationships between the dependent and independent variables. This framework serves as a visual representation of the study's theoretical foundation and guides the research process by clarifying how the key variables are expected to interact.

Independent Variables

Working Capital Management: Working capital management involves overseeing a company's short-term assets and liabilities to ensure smooth and uninterrupted business activities.

Capital Budgeting Techniques: Capital budgeting techniques is methods that

organization use to evaluate and make decisions about investment projects requiring significant financial resources**.**

Capital Structure Decision: Capital Structure Decision is about choosing the best combination of debt, equity and internal funds to finance a company activities and growth.

Claims management policies: Claims management policies specify the procedures and guidelines an organization follows to process, assess and resolve claims made by customers, clients or employees.

Corporate Governance: Corporate Governance outlines the system by which an organizational is managed and guided. It includes the structures, rules and processes that define the relationships and responsibilities among a company's management, board members, shareholders and other interested parties.

Dependent Variables

Financial Performance: Financial performance is the assessment of how effectively a company utilizes its assets and resources to produce income and deliver value to its investors or stakeholders over a certain period of time.

This Research framework visually depicts how approaches to managing working capital and planning capital expenditures influence the financial results of insurance companies within Nepal. This framework delivers an organized approach to examine the proposed relationships and evaluate the research hypotheses.

3.6. Reliability of Data

Table 2

Reliability of Data

Variables	Cronbach Alpha
Working capital management	0.740
Capital budgeting techniques	0.896
Capital structure decisions	0.900
Claims management Policies	0.869
Corporate governance	0.833
Financial Performance	0.921
Overall	0.929

Source: SPSS

The study calculated the Cronbach's Alpha values, which showed high internal consistency and reliability. All variables are acceptable to high reliability, ranging from 0.740 for Working Capital Management to 0.921 for Financial Performance. Capital Budgeting Techniques, Capital Structure Decisions, Claims Management Policies, and Corporate Governance also show high reliability, with coefficients greater than 0.8. The Cronbach's Alpha of 0.929 achieved overall indicates that the evaluation instruments applied in the present research are highly credible in order to guarantee the reliability of the findings.

CHAPTER IV
RESULTS AND DISCUSSION

This section includes statistics analysis in examining the impact of financial practices on insurance companies in Nepal, via descriptive statistics, correlation and regression tests for contrasting how effective core variables like working capital management, methods of capital budgeting, decision on capital structure, claim managing policies, firm governance, and their implications towards financial performance. Results are condensed to identify exceptional findings.

4.1. Demographic Characteristics of the Respondents

Demographics of respondents are used to put the research into context and ensure that the sample corresponds to the stakeholders within the insurance industry. They allow for fulfillment of the perspective of individuals that engage in the management of funds. The examination also assists in identifying whether or not there is a pattern or deviation in replies among different respondent groups.

4.1.1. Gender of the Respondents

The gender allocation of respondents helps understand any potential differences in perspectives related to financial management practices in insurance companies. Below is the gender breakdown.

Table 3

Gender of the Respondents

Gender	Frequency	Percent
Female	173	47.7
Male	190	52.3
Total	363	100.0

Source: Field Study, 2025

The gender distribution demonstrates a fairly balanced representation, with 52.3% of

the respondents (190) male and 47.7% (173) female out of the total 363 respondents. This means both genders' opinions are well represented in the research, which helps to reduce gender bias as well as enhance the credibility of the findings regarding financial management practices within Nepalese insurance companies.

4.1.2. Education of the Respondents

The educational level of respondents provides an indication of the qualification and experience of those involved in the financial management practices of insurance companies. Below is the distribution of respondents by educational level.

Table 4

Education of the Respondents

Education level	Frequency	Percent
College level	115	31.7
Post graduate level	106	29.2
Secondary level	5	1.4
University level	137	37.7
Total	363	100.0

Source: Field Study, 2025

The educational data indicates a largely well-educated population. The largest proportion, 37.7% (137 respondents), has achieved education at the university level, followed by 31.7% (115 respondents) who have an education at the college level. Moreover, 29.2% (106 respondents) have post-graduate qualifications, while a mere percentage, 1.4% (5 respondents), had secondary-level education as their highest level of attainment. This implies that the participants mostly possess higher education qualifications, which is beneficial in order to obtain well-informed views regarding financial management practices of insurance companies in Nepal.

2.1.3. Years of Working in Insurance Firm

The number of years' respondents have been working in the insurance industry define

their experience and expertise in financial management practices. This information is important in establishing how their view can reflect industry trends and practices in the long term. Below is the representation of respondents by years of experience working in the insurance industry.

Table 5

Years of Working in Insurance Firm

Years of working	Frequency	Percent
Less than 2 years	140	38.6
3 to 5 years	137	37.7
Over 5 years	86	23.7
Total	363	100.0

Source: Field Study, 2025

The work experience of the respondents in insurance firms show a relatively young working population, with the majority of the workers having less than five years of work experience. More specifically, 38.6% (140 respondents) have worked for less than 2 years, and 37.7% (137 respondents) have 3 to 5 years of work experience. Only 23.7% (86 respondents) have worked for the insurance sector for over 5 years. This suggests that most of the participants are relatively new to their insurance profession, and this could have implications on their attitude and exposure to various financial management practices in the sector.

4.1.4. Level of Management

The level of management of the respondents provides a notion of the scope of their decision-making authority and the level of their involvement in financial management practices within the organization. Respondents with various levels of management, such as senior and middle management, provide varying perspectives on the manner in which financial practices are implemented and their impacts on company performance. The breakdown of the respondents by their management levels is provided in the table below:

Table 6

Level of Management

Management Level	Frequency	Percent
Middle Management	189	52.1
Senior Management	174	47.9
Total	363	100.0

Source: Field Study, 2025

Distribution of the respondents by level of management indicates fairly even split between senior and middle management. The lion's share, though small, is in middle management at 52.1% (189 respondents), while 47.9% (174 respondents) are in senior management. This shows that there is a capture of views from both the operating and strategic viewpoints within the insurance firms and hence a representative perspective on how financial management practice is perceived and performed across the various organizational levels.

4.2. Descriptive Statistics

Descriptive statistics present summaries of the significant features of data gathered, with a focus on patterns and trends. This section presents the mean, standard deviation, and other measures for variables like working capital management and capital budgeting techniques, with a focus on their impact on financial performance in the insurance sector of Nepal.

4.2.1. Descriptive Statistics of Capital Budgeting Techniques

This part provides the descriptive statistics for capital budgeting techniques (CBT) used by insurance companies in Nepal, illustrating the mean and range of responses. It provides information on the utilization of these techniques in investment planning and financial performance impacts.

Table 7

Descriptive Statistics of Capital Budgeting Techniques

Statements	N	Min.	Max.	Mean	Std. Dev.
The Payback period required to recover the invested amount is an important factor	363	1	5	4.02	.931
Accounting rate of return is evaluated before any gross revenue projects	363	1	5	4.02	.893
The company evaluates net present value prior to launching new projects.	363	1	5	4.01	.975
The company taken into account both discounted and non-discounted techniques when opening new branches.	363	1	5	3.99	.970
The profitability index helps to decide which projects are prioritized for investment	363	1	5	4.09	.915

Source: SPSS calculation

With a mean of 4.02 and a standard deviation of 0.931, the findings suggest that most insurance firms place high value on the payback period in evaluating investment projects. The low variation suggests uniform application of the method across the industry.

Also averaging 4.02, this practice also appears to be under broad consideration when starting revenue-generating projects. Having a standard deviation of 0.893, there is a bit less variety of response, showing it's an agreed-upon common practice.

This approach has a mean of 4.01 and the group's highest standard deviation of 0.975, indicating that while it's widely liked, there's a bit more variation in how regularly it's employed firm to firm.

Having a mean of 3.99 and a standard deviation of 0.970, this tactic is slightly less concentrated on but still widely known and well regarded, especially in taking expansionist decisions like the launch of new branches.

Heading the list with a mean of 4.09, this criterion is clearly prioritized in project

selection. Its standard deviation of 0.915 still signifies consistent agreement, attesting to its importance in decision-making.

4.1.2. Descriptive Statistics of Working Capital Management

This pat presents the descriptive statistics of Working Capital Management (WCM) practices of insurance companies in Nepal. The information shows the overall perception of how firms perform in working capital management and its relation to financial performance. The outcome presents a moderate degree of effectiveness in managing assets and liabilities, as the responses vary in the sample.

Table 8

Descriptive Statistics of Working Capital Management

Statements	N	Min.	Max.	Mean	Std. Dev.
To handle higher gross premium effectively, robust management of overdue premiums is necessary.	363	1	5	4.16	.788
To address cash shortages and sustain performance, the company depends on creditors	363	1	5	4.06	.937
The firm consistently keeps a proper level of cash revenue	363	1	5	1.89	.955
Estimates upcoming cash excess and deficits by preparing cash flow prediction.	363	1	5	4.12	.852
To generate high profits, sufficient working capital is required	363	1	5	4.10	.826

Source: SPSS Calculation

With a mean of 4.16 and low standard deviation of 0.788, this is the highest-rated of all the statements, showing very strong agreement that effective handling of late premiums makes a big contribution to gross premium growth.

A mean rating of 4.06 shows that using creditors to fill cash flow gaps is common and accepted. That the slightly higher standard deviation of 0.937 indicates moderate variation in how often or how well this is done.

This statement is also outstanding with a considerably lower mean of 1.89, reflecting the extent of disagreement or inexperience in maintaining sufficient cash reserves. The 0.955 standard deviation also reflects conflicting answers, but the general conclusion is the extent of weakness in this practice.

With a mean of 4.12, it shows that the majority of firms indeed make arrangements beforehand to manage future cash positions. The standard deviation of 0.852 suggests frequent use by respondents.

With a strong mean of 4.10 and a relatively low standard deviation of 0.826, there is clear agreement that effective working capital management is considered essential to profitability.

4.1.3. Descriptive Statistics of Capital Structure Decisions

This part provides the descriptive statistics of Capital Structure Decisions (CSD) of insurance firms in Nepal. The results show mixed perception about the utilization and suitability of debt and equity in the capital structure.

Table 9

Descriptive Statistics of Capital Structure Decisions

Statements	N	Min.	Max.	Mean	Std. Dev.
The company's capital structure is well-suited to its operation	363	1	5	3.76	1.161
The company has fully used its financial structure to its capacity	363	1	5	3.85	1.055
The company predominantly relies on equity financing rather than other financing sources	363	1	5	3.90	1.058
Tax saving is considered while choosing a capital structure	363	1	5	3.88	1.049
Management evaluates yearly changes in the cost related to the capital structure	363	1	5	3.89	.996

Source: SPSS calculation

The capital structure of the companies shows some difference of opinion as to whether it is suitable. With a mean of 3.76 and a standard deviation of 1.161, the answers show moderate agreement, but opinions differ as to whether the capital structure is ideal.

Most of the companies believe that they utilize their debt facilities effectively, as seen from the mean of 3.85 and standard deviation of 1.055. However, there is some variation in the way companies make use of their debt capacity.

Equity capital is preferred overall, as can be seen from the mean of 3.90. The standard deviation of 1.058 indicates that although most of the companies utilize equity, its usage differs among companies.

Tax savings is a factor that is considered in the decisions regarding capital structure, as the mean of 3.88 and standard deviation of 1.049 reveal. Companies do consider tax benefits when they make decisions about capital structure, but there is some disparity in the significance given to this factor.

Most firms conduct annual budget cost variance analysis on their capital structures, with a mean of 3.89 and a lower standard deviation of 0.996. This suggests strong agreement and consistency in performing these analyses in the industry.

4.1.4. Descriptive Statistics of Claims Management Policies

This part emphasizes Claims Management Policies (CMP) in Nepalese insurance firms. The majority of the companies give importance to monthly financial reports and departmental target setting. Nevertheless, there is inconsistency regarding fraud prevention policies, as some companies do not have effective measures. Companies in general maintain proper claims settlement processes, but fraud management can be enhanced.

Table 10

Descriptive Statistics of Claims Management Policies

Statements	N	Min.	Max.	Mean	Std. Dev.
Monthly financial report is key to effectively managing and tracking the company's claims operation	363	1	5	4.00	.990
Monthly goals are established by management to match each department objectives	363	1	5	3.94	.949
Management applies variance analysis to access monthly performance	363	1	5	3.98	.904
Our firms have established claims settlement process aimed at preventing fraud	363	1	5	2.70	1.563
My company makes sure that proper process is followed properly	363	1	5	3.98	1.054

Source: SPSS calculation

The importance of monthly financial reporting in monitoring claims management is highly consensus-driven, with a mean of 4.00 and a standard deviation of 0.990, representing high consensus and homogeneity among companies.

Most companies set monthly departmental targets to guide performance, as shown by a mean of 3.94 and a standard deviation of 0.949, meaning that the practice is common but with little variation in usage.

A mean of 3.98 and a standard deviation of 0.904 shows that variance analysis is conducted regularly by the majority of firms in order to monitor performance, and there are standard practices across the industry.

The question of claims settlement policies to avoid fraud has a lower mean of 2.70 and a higher standard deviation of 1.563, showing that there is less agreement and more variability in whether or not such policies exist, or are effective.

Finally, companies also adhere to due process in claims settlement with a mean of 3.98 and standard deviation of 1.054, which shows that this is a normal practice but with some divergence in the severity with which it is practiced.

4.1.5. Descriptive Statistics of Corporate Governance

This section deals with the Corporate Governance (CG) practices of Nepalese insurance firms. Most of the firms have strong audit departments and promote transparency through regular audit. Firms also exhibit sound leadership structures favorable to governance, and they adopt risk-based supervision. Audit activities are sometimes affected, indicating a certain level of scope for improvement in governance practices.

Table 11

Descriptive Statistics of Corporate Governance

Statements	N	Min.	Max.	Mean	Std. Dev.
The audit department in my company is operational.	363	1	5	3.99	.996
The audit team carries out its responsibilities without disruption	363	1	5	2.77	1.539
My firms ensure openness and accountability by conducting frequent audit	363	1	5	3.90	1.026
My firms have strong leadership and encourage good governance	363	1	5	4.01	.918
My firms implement risk-based oversight	363	1	5	4.02	.934

Source: SPSS calculation

There is an audit department at operations in most firms with a mean of 3.99 and standard deviation of 0.996, indicating general agreement and standard practice among respondents.

However, there is more variation in the case of the response of the statement about audit

functions not being impacted. With a mean of 2.77 and larger standard deviation of 1.539, the responses indicate that there are concerns regarding the independence audits in certain companies.

With regard to transparency and accountability, the majority of companies are of the opinion that they attain transparency through permission for auditing their books, with a mean of 3.90 and a standard deviation of 1.026, showing uniform but differing opinions on the level of transparency practiced.

Having an effective leadership and management system in operation facilitating corporate governance registered a mean of 4.01 with a standard deviation of 0.918, signifying the prevalence of general consensus and standard practice in leadership being consistent with the principles of corporate governance.

Finally, companies are prone to indicate having risk-based supervision in operation, with a mean of 4.02 and a standard deviation of 0.934, signifying general acceptance of this governance tool across industries.

4.1.6. Descriptive Statistics of Financial Performance

This part examines the financial performance of the Nepalese insurance companies. It reflects modest growth in assets, gross premiums, and financial leverage over the past five years. The companies have a comparatively high market value, with a low interest expense to total operating revenue ratio, reflecting good management in maintaining profitability and reducing overdraft reliance.

Table 12

Descriptive Statistics of Financial Performance

Statements	N	Min.	Max.	Mean	Std. Dev.
Our company's debt has grown over five years	363	1	5	3.62	1.239
Our company's gross premium collection has grown over past five years	363	1	5	3.64	1.291
Our companies have steadily gained more assets over the previous five years	363	1	5	3.61	1.248
The market value of our company's is elevated	363	1	5	3.63	1.301
The company's low interest expense relative to its revenue implies minimal dependence on overdraft	363	1	5	3.66	1.264

Source: SPSS calculation

The companies' leverage in financial terms has increased moderately over the last five years, with a mean of 3.62 and a standard deviation of 1.239, indicating average alignment but some diversity in the answers.

There is a modest increase in gross premiums paid by companies over the same five years, with a mean of 3.64 and a standard deviation of 1.291, suggesting consistent but somewhat varied performance as regards premium growth.

The five-year growth of the assets also exhibits the same average of 3.61 and associated standard deviation of 1.248 suggesting that a large proportion of companies have undergone growth in their assets, with variation existing in how high or low this growth was.

Market-wise, firms reported being more in market value with a mean of 3.63 and standard deviation of 1.301, with a mostly positive but mixed opinion of market valuation.

Lastly, the ration of interest expense to total operating revenue is viewed as low, i.e.,

firms use fewer overdrafts. There is moderate consensus with this statement with a mean of 3.66 and a standard deviation of 1.264, although there is some variation across firms.

4.3. Correlation Analysis

Correlation analysis helps to identify the nature and intensity of the relationships among the variables under consideration. This section examines the associations between working capital management (WCM), capital budgeting techniques (CBT), capital structure decisions (CSD), claims management policies (CMP), corporate governance (CG), and financial performance (FP) in Nepalese insurance companies. Through the examination of the Pearson correlation coefficients, the analysis reveals the level to which each financial management practice adds to the overall financial performance of the companies.

Table 13

Correlation Analysis

Variables	WCM	CBT	CSD	CMP	CG	FP
Working capital Management	1					
	(.000)					
Capital Budgeting Techniques	.751**	1				
	(.000)					
Capital Structure Decision	.668**	.760**	1			
	(.000)	(.000)				
Claims management Policies	.724**	.737**	.832**	1		
	(.000)	(.000)	(.000)			
Corporate Governance	.738**	.714**	.744**	.852**	1	
	(.000)	(.000)	(.000)	(.000)		
Financial Performance	.617**	.590**	.601**	.680**	.703**	1
	(.000)	(.000)	(.000)	(.000)	(.000)	

**. Correlation is significant at the 0.05 level.

Table 13 reveals the correlation test between both independent and the dependent

variables using correlation coefficient analysis. The correlation value between working capital management and financial performance is 0.617 which has significant value 0.000. So, it can be said that there is significant positive correlation between WCM and FP ($p<0.05$). Moreover, the correlation value between capital budgeting techniques and financial performance is 0.590 which has significant value 0.000. So, it can be stated that there is significant positive correlation between capital budgeting techniques and financial Performance ($p<0.05$). Also, correlation value between capital structure decision and Financial Performance is 0.601 which has significant value 0.000. So, it can be stated that there is significant positive correlation between CSD and FP($p<0.05$). In addition, correlation value between claims management policies and Financial Performance is 0.680 which has significant value 0.000. So, it can be stated that there is significant positive correlation between CMP and FP ($p<0.05$). Likewise, correlation value between corporate governance and financial Performance is 0.703 which has significant value 0.000. So, it can be stated that there is significant positive correlation between corporate governance and Financial Performance ($p<0.05$).

4.4. Regression Analysis

Regression analysis contrasts the effect of various financial management practices on the Nepalese insurance companies' financial performance. The analysis determines the determinants, i.e., WCM, CBT, CSD, CMP, and CG, which influence financial performance. The results highlight the areas where financial strategy can be improved in the insurance sector.

Table 14

Model Summary table

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.729[a]	.531	.524	.76194

a. Predictors: (Constant), Corporate Governance, Capital Budgeting Techniques, Working Capital Management, Capital Structure Decisions, Claims Management Policies

The model summary shows that R value of 0.729 illustrates a high positive correlation

among the predictors (Corporate Governance, Capital Budgeting Techniques, Working Capital Management, Capital Structure Decisions, and Claims Management Policies) and the dependent variable (most likely Financial Performance).

R Square of 0.531 implies that roughly 53.1% of variance in the dependent variable can be accounted for by the combined predictors, and therefore the model is a moderately good fit. Adjusted R Square of 0.524 controls for the number of variables entered into the model and indicates that even after controlling for the number of variables entered into the model, the model explains approximately 52.4% variance.

The standard error of the Estimate is 0.76194, a measure of the average distance of the observed values from the regression line and thus a measure of how good the model predictions are. Overall, the model fits quite well, indicating that the included variables have a significant influence on explaining the firms' financial performance.

Table 15

ANOVA table

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	234.565	5	46.913	80.808	.000[b]
Residual	207.257	357	.581		
Total	441.822	362			

Dependent Variable: Financial Performance

Predictors: (Constant), Corporate Governance, Capital Budgeting Techniques, Working Capital Management, Capital Structure Decisions, Claims Management Policies

The ANOVA for the model shows that the regression model is highly significant at differentiating from zero in the explanation of Financial Performance variation. The F-statistic is 80.808, and the p-value is 0.000, which is lower than the 0.05 significance level, therefore the model in general is extremely significant.

Sum of Squares for regression is 234.565 and sum of squares of residuals (error) is 207.257, reflecting variation explained by predictors and unexplained variation. Mean

Square of the regression is 46.913, while for the residual, it is 0.581.

Overall, these results show that the utilization of Corporate Governance, Capital Budgeting Techniques, Working Capital Management, Capital Structure Decisions, and Claims Management Policies has a considerable influence on Financial Performance, with the model explaining a great percentage of variance.

Table 16

Coefficient Table

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.493	.247		-1.996	.047
	WCM	.257	.111	.142	2.310	.021
	CBT	.073	.091	.052	.795	.427
	CSD	.019	.087	.015	.212	.832
	CMP	.278	.111	.213	2.502	.013
	CG	.474	.095	.368	4.974	.000

a. Dependent Variable: Financial Performance (α=0.05)

Table 16 shows that Beta Value of WCM is 0.257 (i.e. positive) and p value is 0.021 which is less than the level of significance 0.05 which indicates that there is positive and significant impact of working capital management on financial performance.

The Beta Value of CBT is 0.073 (i.e. positive) and p value is 0.427 which is greater than the level of significance 0.05 which indicates that there is positive and insignificant impact of capital budgeting techniques on financial performance.

The Beta Value of CSD is 0.019 (i.e. positive) and p value is 0.832 which is greater than the level of significance 0.05 which indicates that there is positive and insignificant impact of capital structure decision on financial performance.

The Beta Value of CMP is 0.278 (i.e. positive) and p value is 0.013 which is less than the level of significance 0.05 which indicates that there is positive and significant

impact of claims management policies on financial performance.

The Beta Value of CG is 0.474 (i.e. positive) and p value is 0.000 which is less than the level of significance 0.05 which indicates that there is positive and significant impact of corporate governance on financial performance.

4.5. Hypotheses Testing

Hypotheses testing examines the significance of various financial management practices on the financial performance of insurance firms operating in Nepal. It determines whether the relationship between working capital management, capital budgeting techniques, capital structure decisions, claims management policies, corporate governance, and financial performance is statistically significant. The results guide decision-makers on which financial practices have the most impact on the performance of insurance firms operating in Nepal.

Table 17

Hypotheses Testing

Hypotheses	P Value	Level of Sig.	Remarks
H1: Working Capital Management has significant effect on the financial performance of insurance companies in Nepal.	.021	0.05	Significant
H2: Capital budgeting techniques have significant effect on the financial performance of insurance companies in Nepal.	.427	0.05	Insignificant
H3: Capital Structure Decisions has significant effect on the financial performance of insurance companies in Nepal.	.832	0.05	Insignificant
H4: Claims Management Policies have significant effect on the financial performance of insurance companies in Nepal.	.013	0.05	Significant
H5: Corporate Governance has significant effect on the financial performance of insurance companies in Nepal.	.000	0.05	Significant

Based on the hypothesis testing at the 0.05 level of significance, the study confirmed that Working Capital Management (H1), Claims Management Policies (H4), and Corporate Governance (H5) are statistically significant in their contribution to the financial performance of insurance firms in Nepal with p-values of.021,.013, and.000 respectively. This indicates that proper management in these areas has a positive effect on financial outcomes. However, Capital Budgeting Techniques (H2) and Capital Structure Decisions (H3) were insignificant as their respective p-values (.427 and.832) are greater than the given 0.05. These findings suggest that while internal finance practices such as governance, claims, and working capital management are vital in determining performance, other aspects of conventional financial decision-making may not be as directly impactful in the case of Nepalese insurance companies.

4.6. Major Findings

The following are the major findings drawn from the survey;

- 52.3% of the respondents are male and 47.7% are female respondents.
- Most respondents have a university-level education (37.7%) or College-level education (31.7%).
- 38.6% of respondents have worked in the insurance industry for less than 2 years.
- 52.1% of respondents are in Middle Management, and 47.9% are in Senior Management.
- The Payback Period and Accounting Rate of Return are key investment factors with a mean of 4.02.
- Managing premium arrears is vital for increasing gross premiums, with a mean of 4.16.
- Companies prefer equity capital over other sources, with a mean score of 3.90.
- Companies follow proper procedures for claim settlements, with a mean of 3.98.
- A strong corporate governance structure significantly boosts financial performance, with a mean of 4.01.
- Financial leverage and gross premiums have shown moderate growth, with a mean of 3.64.

- There is positive correlation between working capital management and financial performance (0.617).
- There is positive correlation between capital budgeting techniques and financial performance (0.590).
- There is positive correlation between capita structure decision and financial performance (0.601).
- There is positive correlation between claims management policies and financial performance (0.680).
- There is positive correlation between corporate governance and financial performance (0.703).
- The regression model shows 53.1% of the variation in the dependent variable (FP)**,** which shows a strong impact of the independent variables on the dependent variable.
- The regression analysis is significant with p value 0.000 which means that the combination of all the financial practices have impact in the financial performance.
- There is a positive and significant effect of working capital management on financial performance (p=0.021).
- There is a positive but insignificant effect of capital budgeting techniques on financial performance (p=0.427).
- There is a positive but insignificant effect of capital structure decision on financial performance (p=0.832)
- There is a positive and a significant effect of claims management policies on financial performance (p=0.013).
- There is a strong positive and significant effect of corporate governance on financial performance (p=0.000).

4.7. Discussion

This study found that capital budgeting techniques of payback period, accounting rate of return, and net present value are extensively used, with high average scores above 4.00. Regression results revealed that CBT does not have a significant impact on financial performance (p = 0.427). This finding is opposite to Gilbert (2019) and

Klammer (2013), which found a positive influence of capital budgeting techniques on company performance, particularly if discounting methods like NPV and IRR were used. The discrepancy may suggest that while Nepalese insurance firms utilize these techniques in decision-making, the quality or strategic focus of their investment analysis is not sufficiently strong to influence financial performance. It can also reflect a possible gap between investment planning and actual execution.

This study proved a high positive effect of WCM on FP ($p = 0.021$), and it correlated significantly with FP ($r = 0.617$). Descriptive results also revealed high scores, especially in premium arrears management (mean = 4.16). This finding agrees with Gul et al. (2020) and Mohammad et al. (2010), who determined that sound WCM most especially reducing accounts receivables days and attaining the optimal level of cash is positively affecting profitability. It confirms that in insurance firms, strict control of receivables and cash flow forecasting is critical to ensure performance and solvency.

The regression test revealed an insignificant impact of CSD on financial performance ($p = 0.832$), even though descriptive statistics showed moderate use of equity and minimal debt (mean around 3.85–3.90). The result contradicts Umar et al. (2012), who found a positive correlation between capital structure and performance. However, the finding is aligned with Muritala (2012), who established a negative or insignificant correlation, suggesting that too much or poorly structured debt would not necessarily improve performance, particularly in developing nations where servicing charges and interest rates can be sizable. Nepalese insurers may not be applying debt efficiently or may experience market constraints in financial markets that minimize the effectiveness of policies on capital structure.

CMP showed a very significant positive influence on financial performance ($p = 0.013$) in the study, and it correlated well ($r = 0.680$). All participants verified procedure adherence and monthly variance analysis. This is supported by Sayeed and Hogue (2009) and Angima and Mwangi (2017), who found that successful claims handling supports operational efficiency and fraud avoidance, which indirectly translates to performance. While Angima and Mwangi (2017) observed minimal direct financial impact, the study shows that successful claims handling directly boosts profitability, possibly due to reduced payouts and enhanced customer confidence.

Corporate governance had the greatest significant impact on financial performance ($p = 0.000$) and most highly correlated ($r = 0.703$) with financial performance. Descriptive statistics of governance practices expressed a positive perspective, especially about audit independence and risk-based supervision. This supports Karani (2015), who have stressed the impact of governance role in improving transparency, answerability, and firm performance. The positive role in the study indicates that accurate leadership structure and transparent reporting play a vital role in Nepal's insurance sector where regulatory structures are evolving and investor confidence is extremely dependent on the level of governance.

CHAPTER V
SUMMARY AND CONCLUSION

This chapter summarizes the research objective, methodology, key findings, and conclusions. It provides an account of how financial management practices influence the insurance companies' financial performance in Nepal. Recommendations for improving the best practice are made based on the findings, along with recommendations for further research.

5.1. Summary

The objective of this study is to evaluate the existing condition of financial management practices and how they affect the financial performance of insurance firms in Nepal. Precisely, it seeks to examine the interaction between working capital management, capital budgeting methods, capital structure choice, claims management policies, and corporate governance and overall financial performance. The study was informed by the following objectives that entailed examining current practices that were being used, understanding their effect on firm performance, and specifically examining the manner in which working capital and capital budgeting methods create financial success within the insurance sector.

Descriptive and causal-comparative research design was adopted, where senior and middle-level managers selected from among 14 licensed insurance companies in Nepal, were targeted by purposive sampling. The sample was 363 respondents, and data collection was carried out with the help of a structured Likert scale questionnaire delivered through Google Forms. The study relied mostly on quantitative methods, including descriptive statistics, correlation, and regression analysis, calculated through SPSS software. Despite its strength, the study has various weaknesses such as reliance on secondary data, cross-sectional design, and exclusion of external environmental factors and qualitative information that may affect the generalizability of findings.

The analysis demonstrates that corporate governance, working capital management, and claims management policy were of considerable influence on financial outcomes. Yet, methods of capital budgeting and capital structure decisions were not statistically

significant. These findings suggest that internal operation control, governance, and liquidity management are more critical to financial success than investment planning or financing decisions in the Nepalese insurance sector today. This suggests that companies should focus on operational effectiveness and governance changes to influence performance improvement.

5.2. Conclusion

The study finds that among numerous financial management practices in question, working capital management, claims management policy, and corporate governance all play important roles towards improving the financial outcomes of insurance firms in Nepal. The practices not only showed a positive association with financial outcomes but also showed statistical significance when tested in regression analysis. This implies that sound cash flow management, claims handling fraud evasion, and strong internal governance frameworks are essential to financial stability and growth in the insurance sector.

On the other hand, capital budgeting techniques and capital structure decisions, while widely practiced, failed to show a notable impact on financial performance. This indicates that despite if companies employ traditional investment appraisal techniques and make a blend of loans and ownership capital, these actions in themselves are inadequate to generate better financial performance. Not having any effect may be because of inappropriate usage of strategic financial planning, inadequately structured capital markets, or necessities of more rigorous implementation and evaluation of investment alternatives.

Overall, the results underscore the significance of internal efficiency, accountability, and liquidity control over investment structuring in the Nepalese insurance market of the present day. For policymakers and managers, the study recommends strengthening corporate governance frameworks, simplifying claims management systems, and maximizing working capital strategies to improve overall performance. Future research would be enhanced by incorporating qualitative insights and expanding the scope to include external economic and regulatory drivers for a more comprehensive understanding.

5.3. Recommendations

The following suggestions are provided, drawing from the study's finding:

- Insurance firms need to strengthen working capital management for ensuring liquidity and operational efficiency.
- Proper cash balance and cash flow forecasting can avoid financial shortages.
- Arrears in premiums need to be properly controlled for improving gross premium collection.
- There needs to be effective claims management systems in companies for detecting and reducing fraudulent claims.
- Proper claims settlement procedures need to maintain for improving customer confidence and financial performance.
- Corporate governance structures need to be enhanced, especially through independent audits and transparency.
- Risk-based supervision needs to be introduced in all insurance firms to facilitate regulatory compliance.
- Capital budgeting techniques need to be more strategically applied in long-term investment appraisal.
- Decision-makers need to be provided with training programs in financial planning and investment appraisal.
- Capital structure decisions need to be taken based on company capacity and market conditions for additional returns.
- Over-reliance on debt financing should be avoided to maintain financial stability.
- Financial performance analysis on a regular basis needs to be conducted to ascertain how successful current management practices are.
- Evidence-based decision-making needs to be encouraged by policy-makers by enabling access to financial performance data.
- Future studies need to incorporate qualitative methodologies in order to formulate deeper understanding of practical implementation problems.
- Insurance firms need to adjust their financial management practices based on economic and regulatory changes.

5.4. Implication for Further Study

This study has been in a position to provide significant feedback on how various financial management practices affect the financial performance of insurance companies in Nepal. However, it was predominantly focused on quantitative information and in-house practices, and there can be more improvement. Future research can potentially be able to draw more from conducting qualitative research using interviews or focus group discussions involving financial managers and executives. This would give more understanding of the behavioral drivers, operational concerns, and strategic decisions underpinning financial management practice that cannot be gleaned entirely by statistical analysis.

Future studies might also broaden the scope to include external variables such as market competition, macroeconomic conditions, government policies, and technological changes that might also affect financial performance. A longitudinal study design can be employed to track the effect of financial practices over time and ascertain how they change in reaction to shifting industry dynamics. Comparative studies between Nepalese insurance firms and other developing economies can also provide a broader perspective of best practices and contextual differences in financial management effectiveness.

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APPENDIX I: QUESTIONNAIRE

SECTION 1: GENERAL /DEMOGRAPHIC DATA

1. Kindly indicate your gender

   a) Male
   b) Female

2. Please indicate the highest level of education you have ever attained?
   a) Secondary level
   b) College level
   c) University level
   d) Post graduate level
3. How many years have your worked in the insurance firm?
   a) Less than 2 years
   b) 3 to 5 years
   c) Over 5 years
4. Please indicate the level of management you are in.
   a) Senior Management
   b) Middle Management

SECTION 2: FINANCIAL MANAGEMENT PRACTICES

Section A: Capital Budgeting Technique

This section aims at establishing the effect of working capital management on financial performance of insurance companies in Nepal. Please indicate your agreement or otherwise with the following statements using the following likert scale.
Key: 1=strongly disagree, 2= disagree; 3=neutral; 4= agree; 5= strongly agree

Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
The Payback period required to recover the invested amount is an important factor					
Accounting rate of return is evaluated before any gross revenue projects					
The company evaluates net present value prior to launching new projects					
The company taken into account both discounted and non-discounted techniques when opening new branches.					

The profitability index helps to decide which projects are prioritized for investment					

Part B: Working Capital Management

This section aims at finding out whether capital budgeting techniques influences financial performance of insurance companies in Nepal. Please indicate your agreement or otherwise with the following statements using the following Likert scale. **Key: 1=strongly disagree, 2= disagree; 3=neutral; 4= agree; 5= strongly agree**

Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
To handle higher gross premium effectively, robust management of overdue premiums is necessary					
To address cash shortages and sustain performance, the company depends on creditors					
The firm consistently keeps a proper level of cash reserves.					
Estimates upcoming cash excess and deficits by preparing cash flow predication					
To generate high profits, sufficient working capital is required					

Part C: Capital Structure Decisions

This section aims at investigating the effect of capital structure decisions on financial performance of insurance companies in Nepal. Please indicate your agreement or otherwise with the following statements using the following likert scale. **Key: 1=strongly disagree, 2= disagree; 3=neutral; 4= agree; 5= strongly agree**

Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
The company's capital structure is well-suited to its operation					

The company has fully used its financial structure to its capacity					
The company predominantly relies on equity financing rather than other financing sources					
Tax savings are considered while choosing a capital structure					
Management evaluates yearly charges in the cost related to the capital structures					

Part D: Claims Management Policies

This section aims at finding out whether claims management policies affect organizational performance of insurance companies in Nepal. Please indicate your agreement or otherwise with the following statements using the following likert scale. **Key: 1=strongly disagree, 2= disagree; 3=neutral; 4= agree; 5= strongly agree**

Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Monthly financial report is key to effectively managing and tracking the company's claims operation					
Monthly goals are established by management to match each department objectives					
Management applies variance analysis to access monthly performance					
Our firm have established claims settlement process aimed at preventing fraud					
My company makes sure that proper process is followed properly					

Part E: Corporate Governance

This section aims at exploring the effect of corporate governance on financial performance of insurance companies in Nepal. Please indicate your agreement or otherwise with the following statements using the following Likert scale. **Key:**

1=strongly disagree, 2= disagree; 3=neutral; 4= agree; 5= strongly agree

Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
The audit department in my company is operational.					
The audit team carries out its responsibilities without disruption.					
My firms have strong leadership and encourage good governance					
My firms ensure openness and accountability by conducting frequent audits					
My firms implement risk-based oversight					

SECTION 3: Financial Performance

This section aims at exploring financial performance of insurance companies in Nepal. Please indicate your agreement or otherwise with the following statements using the following Likert scale. **Key: 1=strongly disagree, 2= disagree; 3=neutral; 4= agree; 5= strongly agree**

Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Our company's debt has grown over five years					
Our company's gross premium collection has grown over past five years					
Our companies have steadily gained more assets over the previous give years					
The market value of our firm is elevated					
The company's low interest expense relative to its revenue implies minimal dependence on overdrafts					

APPENDIX II: SPSS OUTPUTS

Kindly indicate your gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	173	47.7	47.7	47.7
	Male	190	52.3	52.3	100.0
	Total	363	100.0	100.0	

Please indicate the highest level of education you have ever attained?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	College level	115	31.7	31.7	31.7
	Post graduate level	106	29.2	29.2	60.9
	Secondary level	5	1.4	1.4	62.3
	University level	137	37.7	37.7	100.0
	Total	363	100.0	100.0	

How many years have you worked in the insurance firm?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3 to 5 years	137	37.7	37.7	37.7
	Less than 2 years	140	38.6	38.6	76.3
	Over 5 years	86	23.7	23.7	100.0
	Total	363	100.0	100.0	

Please indicate the level of management you are in.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Middle Management	189	52.1	52.1	52.1
	Senior Management	174	47.9	47.9	100.0
	Total	363	100.0	100.0	

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Working Capital Management [To handle higher gross premium effectively, robust management of overdue premiums is necessary]	363	1	5	4.16	.788
Working Capital Management [To address cash shortages and sustain performance, the company depends on creditors]	363	1	5	4.06	.937
Working Capital Management [The firm consistently keeps a proper level of cash reserves]	363	1	5	1.89	.955
Working Capital Management [Estimates upcoming cash excess and deficits by preparing cash flow predication]	363	1	5	4.12	.852
Working Capital Management [To generate high profits, sufficient working capital is required]	363	1	5	4.10	.826
Valid N (list wise)	363				

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Capital Budgeting Techniques [The Payback period required to recover the invested amount is an important factor]	363	1	5	4.02	.931
Capital Budgeting Techniques [Accounting rate of return is evaluated before any gross revenue projects]	363	1	5	4.02	.893

Capital Budgeting Techniques [The company evaluates net present value prior to launching new projects]	363	1	5	4.01	.975
Capital Budgeting Techniques [The company taken into account both discounted and non-discounted techniques when opening new branches]	363	1	5	3.99	.970
Capital Budgeting Techniques [The profitability index helps to decide which projects are prioritized for investment]	363	1	5	4.09	.915
Valid N (list wise)	363				

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Capital Structure Decisions [The company's capital structure is well-suited to its operation]	363	1	5	3.76	1.161
Capital Structure Decision [The company has fully used its financial structure to its capacity s]	363	1	5	3.85	1.055
Capital Structure Decisions [The company predominantly relies on equity financing rather than other financing sources]	363	1	5	3.90	1.058
Capital Structure Decision [Tax savings are considered while choosing a capital structure s]	363	1	5	3.88	1.049
Capital Structure Decisions [Management evaluates yearly charges in the cost related to the capital structures]	363	1	5	3.89	.996
Valid N (list wise)	363				

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Claims Management policies [Monthly financial report are key to effectively managing and tracking the company's claims operation]	363	1	5	4.00	.990
Claims Management Policies [Monthly goals are established by management to match each department objectives]	363	1	5	3.94	.949
Claims Management Policies [Management applies variance analysis to access monthly performance]	363	1	5	3.94	.904
Claims Management Policies [Our firms have established claims settlement process aimed at preventing fraud]	363	1	5	2.70	1.563
Claims Management Policies [My company makes sure that proper process is followed properly]	363	1	5	3.98	1.054
Valid N (list wise)	363				

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Corporate Governance [The audit department in my company is operational.]	363	1	5	3.99	.996
Corporate Governance [The audit team carries out its responsibilities without disruption]	363	1	5	2.77	1.539

Corporate Governance [My firms have strong leadership and encourage good governance]	363	1	5	3.90	1.026
Corporate Governance [My firms ensure openness and accountability by conducting frequent audits]	363	1	5	4.01	.918
Corporate Governance [My firms implement risk-based oversight]	363	1	5	4.02	.934
Valid N (list wise)	363				

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Performance [Our company's debt has grown over five years]	363	1	5	3.62	1.239
Financial Performance [Our company's gross premium collection has grown over past five years]	363	1	5	3.64	1.291
Financial Performance [Our companies has steadily gained more assets over the previous give years]	363	1	5	3.61	1.248
Financial Performance [The market value of our company is elevated]	360	1	5	3.63	1.301
Financial Performance [The company's low interest expense relative to its revenue implies minimal dependence on overdrafts]	360	1	5	3.66	1.264

Valid N (list wise)	357				

Reliability Statistics

Cronbach's Alpha	N of Items
.740	5

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Working Capital Management [To handle higher gross premium effectively, robust management of overdue premiums is necessary	14.17	6.348	.602	.662
Working Capital Management [To address cash shortages and sustain performance, the company depends on creditors]	14.27	5.822	.589	.660
Working Capital Management [The firm consistently keeps a proper level of cash reserves]	16.45	8.137	.057	.857
Working Capital Management [Estimates upcoming cash excess and deficits by preparing cash flow predication]	14.21	5.703	.721	.610
Working Capital Management [To generate high profits, sufficient working capital is required]	14.23	5.891	.695	.624

Reliability Statistics

Cronbach's Alpha	N of Items
.896	5

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Capital Budgeting Techniques [The Payback period required to recover the invested amount is an important factor]	16.10	10.321	.722	.878
Capital Budgeting Techniques [Accounting rate of return is evaluated before any gross revenue projects]	16.11	10.328	.763	.869
Capital Budgeting Techniques [The company evaluates net present value prior to launching new projects]	16.12	10.163	.707	.881
Capital Budgeting Techniques [The company taken into account both discounted and non-discounted techniques when opening new branches]	16.14	9.900	.764	.868
Capital Budgeting Techniques [The profitability index helps to decide which projects are prioritized for investment]	16.04	10.208	.763	.869

Reliability Statistics

Cronbach's Alpha	N of Items
.900	5

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Capital Structure Decisions [The company's capital structure is well-suited to its operation]	15.52	13.405	.649	.903
Capital Structure Decision [The company has fully used its financial structure to its capacity s]	15.43	13.235	.772	.874
Capital Structure Decisions [The company predominantly relies on equity financing rather than other financing sources]	15.38	13.109	.789	.870
Capital Structure Decision [Tax savings are considered while choosing a capital structure s]	15.40	13.274	.771	.874
Capital Structure Decisions [Management evaluates yearly charges in the cost related to the capital structures]	15.39	13.470	.795	.870

Reliability Statistics

Cronbach's Alpha	N of Items
.869	5

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alp if Item Deleted

Claims Management policies [Monthly financial report are key to effectively managing and tracking the company's claims operation]	18.53	18.520	.729	.838
Claims Management Policies [Monthly goals are established by management to match each department objectives]	18.59	18.315	.800	.828
Claims Management Policies [Management applies variance analysis to access monthly performance]	18.59	18.684	.795	.831
Claims Management Policies [Our firms have established claims settlement process aimed at preventing fraud]	19.83	17.567	.435	.920
Claims Management Policies [My company makes sure that proper process is followed properly]	18.55	18.408	.685	.844

Reliability Statistics

Cronbach's Alpha	N of Items
.833	5

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted

Corporate Governance [The audit department in my company is operational.]	14.71	12.301	.726	.777
Corporate Governance [The audit team carries out its responsibilities without disruption]	15.93	11.699	.408	.905
Corporate Governance [My firms have strong leadership and encourage good governance]	14.80	12.209	.712	.779
Corporate Governance [My firms ensure openness and accountability by conducting frequent audits]	14.69	12.548	.765	.772
Corporate Governance [My firms implement risk-based oversight]	14.68	12.468	.762	.771

Reliability Statistics

Cronbach's Alpha	N of Items
.921	5

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alp if Item Deleted
Financial Performance [Our company's debt has grown over five years]	14.54	20.817	.750	.912

Financial Performance [Our company's gross premium collection has grown over past five years]	14.53	19.862	.810	.901
Financial Performance [Our companies has steadily gained more assets over the previous give years	14.55	19.990	.832	.896
Financial Performance [The market value of our company is elevated]	14.53	19.952	.793	.904
Financial Performance [The company's low interest expense relative to its revenue implies minimal dependence on overdrafts]	14.51	20.223	.796	.904

Correlations

		Working Capital Management	Capital Budgeting Techniques	Capital Structure Decisions	Capital Management Policies	Corporate Governance	Financial Performance
Working Capital Management	Pearson Correlation	1	.751**	.668**	.724**	.738**	.617**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	363	363	363	363	363	363
Capital Budgeting Techniques	Pearson Correlation	.751**	1	.760**	.737**	.714**	.590**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	363	363	363	363	363	363
Capital Structure Decisions	Pearson Correlation	.668**	.760**	1	.832**	.744**	.601**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	363	363	363	363	363	363
Capital Management Policies	Pearson Correlation	.724**	.737**	.832**	1	.852**	.680**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	363	363	363	363	363	363

Corporate Governance	Pearson Correlation	.738**	.714**	.744**	.852**	1	.703**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	363	363	363	363	363	363
Financial Performance	Pearson Correlation	.617**	.590**	.601**	.680**	.703**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	363	363	363	363	363	363

**. Correlation is significant at the 0.05 level (2-tailed).

Reliability Statistics

Cronbach's Alpha	N of Items
.929	6

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Working Capital Management	19.0081	15.597	.790	.921
Capital Budgeting Techniques	18.6494	14.394	.799	.915
Capital Structure Decisions	18.8191	13.553	.818	.912
Capital Management Policies	18.9200	13.574	.883	.904
Corporate Governance	18.9348	13.603	.862	.906
Financial Performance	19.0424	12.912	.713	.935

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.729[a]	.531	.524	.76194

a. Predictors: (Constant), Corporate Governance, Capital Budgeting Techniques, Working Capital Management, Capital Structure Decisions, Capital Management Policies

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	234.565	5	46.913	80.808	.000[b]
	Residual	207.257	357	.581		
	Total	441.822	362			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Corporate Governance, Capital Budgeting Techniques, Working Capital Management, Capital Structure Decisions, Capital Management Policies

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.493	.247		-1.996	.047
	Working Capital Management	.257	.111	.142	2.310	.021
	Capital Budgeting Techniques	.073	.091	.052	.795	.427
	Capital Structure Decisions	.019	.087	.015	.212	.832
	Capital Management Policies	.278	.111	.213	2.502	.013
	Corporate Governance	.474	.095	.368	4.974	.000

a. Dependent Variable: Financial Performance

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